



Ingwe Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2014

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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<b>Legal form of entity</b>	Municipality (MFMA)
<b>Members of Council</b>	
Mayor	Cllr NP Luzulane
Deputy Mayor	Cllr SV Zulu
Speaker	Cllr MW Mtolo
EXCO Member	Cllr SP Msomi
EXCO Member	Cllr HA Ngcobo
Councillors	Cllr SS Ngubo
	Cllr NA Dlamini
	Cllr FM Makhanya
	Cllr SE Dlamini
	Cllr ST Dlamini
	Cllr SW Mtolo
	Cllr BC Mncwabe
	Cllr B Thabethe
	Cllr BC Kunene
	Cllr VE Mncwabe
	Cllr MC Cekwane
	Cllr TA Zikode
	Cllr PP Shange
	Cllr SR Mlotshwa
	Cllr BC Nzimande
	Cllr G Mbatha
	Cllr SJ Bhengu
<b>Chief Finance Officer (CFO)</b>	Mr Mthembeni Mzimela
<b>Municipal Manager</b>	Mr NC Vezi
<b>Registered office</b>	Ingwe Local Municipality
<b>Physical address</b>	Main Street Creighton 3263
<b>Postal address</b>	P O Box 62 Creighton 3263
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General of South Africa (AGSA)
<b>Attorneys</b>	BBM Attorneys

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Ingwe Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Officer 's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page

I certify that salaries , allowances and benefits of councilors , loans to councilors , if any , and payments made to councilors for the loss of office , if any, as disclosed in the notes of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution , read in conjunction with the Remuneration of Office Bearers Act and the Minister of Local Government's determination in accordance with this Act.

The annual financial statements as set out on pages 3 to 64 have been prepared on the going concern basis, were approved by the Accounting Officer on 30 August 2014 and were signed on its behalf by:

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**Mr NC Vezi**  
**Municipal Manager**

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Assets</b>			
Current Assets			
Receivables from non-exchange transactions	2	598,199	583,073
VAT receivable	3	1,755,107	1,945,124
Receivables from exchange and non -exchange transactions	4	447,933	1,405,806
Cash and cash equivalents	5	52,420,265	67,775,294
		<b>55,221,504</b>	<b>71,709,297</b>
Non-Current Assets			
Investment property	6	565,000	731,000
Property, plant and equipment	7	148,737,621	115,336,348
Intangible assets	8	178,780	257,978
		<b>149,481,401</b>	<b>116,325,326</b>
<b>Total Assets</b>		<b>204,702,905</b>	<b>188,034,623</b>
<b>Liabilities</b>			
Current Liabilities			
Finance lease obligation	9	52,152	23,418
Payables from exchange transactions	10	15,718,645	9,254,310
Unspent conditional grants and receipts	11	2,506,896	7,129,771
		<b>18,277,693</b>	<b>16,407,499</b>
Non-Current Liabilities			
Finance lease obligation	9	237,956	291,221
Long service awards obligation	12	223,000	574,042
Provisions	12	384,867	1,264,307
Retirement health care liability	12	1,804,155	1,397,624
		<b>2,649,978</b>	<b>3,527,194</b>
<b>Total Liabilities</b>		<b>20,927,671</b>	<b>19,934,693</b>
<b>Net Assets</b>		<b>183,775,234</b>	<b>168,099,930</b>
Accumulated surplus		183,775,234	168,099,930

\* See Note 38 & 34

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Revenue</b>			
Service charges	13	524,198	443,675
Property rates	14	5,193,575	4,692,529
Property rates - penalties imposed	14	253,195	434,180
Government grants & subsidies	15	88,799,014	100,663,664
Rental of facilities and equipment	35	295,553	212,190
Traffic fines	35	708,878	110,830
Other income	16	367,315	2,996,267
Interest received	17	3,942,378	4,509,353
<b>Total revenue</b>		<b>100,084,106</b>	<b>114,062,688</b>
<b>Expenditure</b>			
Employee Related Costs	18	(25,083,150)	(19,732,105)
Remuneration of councillors	19	(6,388,782)	(5,931,081)
Depreciation and amortisation	20	(8,634,768)	(4,697,016)
Impairment loss traffic fines	41	(425,754)	-
Finance costs	21	(402,680)	(299,769)
Bad Debts		(1,983,333)	(3,893,481)
Repairs and maintenance		(4,176,105)	(1,412,514)
Contracted services	22	(1,312,827)	(875,833)
General Expenses	23	(36,004,818)	(36,687,876)
<b>Total expenditure</b>		<b>(84,412,217)</b>	<b>(73,529,675)</b>
<b>Operating surplus</b>		<b>15,671,889</b>	<b>40,533,013</b>
Fair value adjustments		-	(218,000)
Loss on disposal of property plant and equipment		(199,255)	-
		<b>(199,255)</b>	<b>(218,000)</b>
<b>Surplus for the year</b>		<b>15,472,634</b>	<b>40,315,013</b>

\* See Note 38 & 34

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2012</b>	<b>122,597,651</b>	<b>122,597,651</b>
Changes in net assets		
Surplus for the year	40,315,013	40,315,013
Change in accounting estimate	417,201	417,201
Prior year errors	(6,016)	(6,016)
<b>Total changes</b>	<b>40,726,198</b>	<b>40,726,198</b>
Opening balance as previously reported	163,323,849	163,323,849
Adjustments		
Change in accounting policy ( Note 38 )	336,790	336,790
Prior period errors (Note 34)	4,439,291	4,439,291
<b>Restated* Balance at 01 July 2013 as restated*</b>	<b>168,099,930</b>	<b>168,099,930</b>
Changes in net assets		
Surplus for the year	15,472,634	15,472,634
PPE item not previously recognised	202,670	202,670
<b>Total changes</b>	<b>15,675,304</b>	<b>15,675,304</b>
<b>Balance at 30 June 2014</b>	<b>183,775,234</b>	<b>183,775,234</b>

\* See Note 38 & 34

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		84,997,975	100,663,664
Interest income		3,942,378	4,509,354
Other receipts		7,342,713	8,431,824
		96,283,066	113,604,842
<b>Payments</b>			
Employee costs and suppliers		(68,842,629)	(83,644,549)
Finance Costs		(402,680)	(299,769)
		(69,245,309)	(83,944,318)
<b>Net cash flows from operating activities(outflows)/inflows</b>	25	<b>27,037,757</b>	<b>29,660,524</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(48,604,900)	(40,997,513)
Proceeds from sale of property, plant and equipment	7	-	12,864
Movements in property , plant and equipment	7	6,236,645	-
Purchase of other intangible assets	8	-	(87,220)
<b>Net cash flows from investing activities</b>		<b>(42,368,255)</b>	<b>(41,071,869)</b>
<b>Cash flows from financing activities</b>			
Movement in other liability		-	2,262,724
Finance lease payments		(24,531)	(13,795)
<b>Net cash flows from financing activities</b>		<b>(24,531)</b>	<b>2,248,929</b>
<b>Net (increase)/decrease in cash and cash equivalents</b>		<b>(15,355,029)</b>	<b>(9,162,416)</b>
Cash and cash equivalents at the beginning of the year		67,775,294	76,937,710
<b>Cash and cash equivalents at the end of the year</b>	5	<b>52,420,265</b>	<b>67,775,294</b>

\* See Note 38 & 34



# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	450,000	(150,000)	<b>300,000</b>	524,198	<b>224,198</b>	Refer to note 36 for variance explanation
Rental of facilities and equipment	190,000	91,000	<b>281,000</b>	295,553	<b>14,553</b>	Refer to note 36 for variance explanation
Other income - (rollup)	498,000	(269,000)	<b>229,000</b>	367,315	<b>138,315</b>	Refer to note 36 for variance explanation
Interest received - investment	3,800,000	200,000	<b>4,000,000</b>	3,942,378	<b>(57,622)</b>	Refer to note 36 for variance explanation
<b>Total revenue from exchange transactions</b>	<b>4,938,000</b>	<b>(128,000)</b>	<b>4,810,000</b>	<b>5,129,444</b>	<b>319,444</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	11,000,000	(7,100,000)	<b>3,900,000</b>	5,193,575	<b>1,293,575</b>	Refer to note 36 for variance explanation
Property rates - penalties imposed	-	-	-	253,195	<b>253,195</b>	
Government grants & subsidies	60,342,000	24,335,000	<b>84,677,000</b>	88,799,014	<b>4,122,014</b>	Refer to note 36 for variance explanation
<b>Transfer revenue</b>						
Fines	200,000	-	<b>200,000</b>	708,878	<b>508,878</b>	Refer to note 36 for variance explanation
<b>Total revenue from non-exchange transactions</b>	<b>71,542,000</b>	<b>17,235,000</b>	<b>88,777,000</b>	<b>94,954,662</b>	<b>6,177,662</b>	
<b>Total revenue</b>	<b>76,480,000</b>	<b>17,107,000</b>	<b>93,587,000</b>	<b>100,084,106</b>	<b>6,497,106</b>	
<b>Expenditure</b>						
Personnel	(24,393,000)	(251,000)	<b>(24,644,000)</b>	(25,083,150)	<b>(439,150)</b>	
Remuneration of councillors	(6,392,000)	(58,000)	<b>(6,450,000)</b>	(6,388,782)	<b>61,218</b>	
Depreciation and amortisation	(5,000,000)	-	<b>(5,000,000)</b>	(8,634,768)	<b>(3,634,768)</b>	Refer to note 36 for variance explanation
Impairment loss/ Reversal of impairments	-	-	-	(425,754)	<b>(425,754)</b>	Refer to note 36 for variance explanation
Finance costs	(117,000)	(230,000)	<b>(347,000)</b>	(402,680)	<b>(55,680)</b>	Refer
Bad debts	(475,000)	50,000	<b>(425,000)</b>	(1,983,333)	<b>(1,558,333)</b>	Refer to note 36 for variance explanation

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Repairs and maintenance	(7,360,000)	-	<b>(7,360,000)</b>	(4,176,105)	<b>3,183,895</b>	Refer to note 36 for variance explanation
Contracted Services	(3,359,000)	74,000	<b>(3,285,000)</b>	(1,312,827)	<b>1,972,173</b>	Refer to note 36 for material variance
General Expenses	(38,438,432)	(8,577,953)	<b>(47,016,385)</b>	(36,004,818)	<b>11,011,567</b>	Refer to note 36 for material variance
<b>Total expenditure</b>	<b>(85,534,432)</b>	<b>(8,992,953)</b>	<b>(94,527,385)</b>	<b>(84,412,217)</b>	<b>10,115,168</b>	
<b>Operating surplus</b>	<b>(9,054,432)</b>	<b>8,114,047</b>	<b>(940,385)</b>	<b>15,671,889</b>	<b>16,612,274</b>	
Loss on sale of property plant and equipment	-	-	-	(199,255)	<b>(199,255)</b>	
<b>Surplus before taxation</b>	<b>(9,054,432)</b>	<b>8,114,047</b>	<b>(940,385)</b>	<b>15,472,634</b>	<b>16,413,019</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(9,054,432)</b>	<b>8,114,047</b>	<b>(940,385)</b>	<b>15,472,634</b>	<b>16,413,019</b>	

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Capital expenditure</b>						
<b>Capital expenditure by asset category</b>						
Community Assets	31,178,777	-	<b>31,178,777</b>	27,786,972	<b>(3,391,805)</b>	
Infrastructure Assets	46,904,891	-	<b>46,904,891</b>	26,642,120	<b>(20,262,771)</b>	
Other Assets	14,177,816	-	<b>14,177,816</b>	12,455,116	<b>(1,722,700)</b>	
	<b>92,261,484</b>	-	<b>92,261,484</b>	<b>66,884,208</b>	<b>(25,377,276)</b>	
<b>Funding Sources</b>						
Government Grants	23,196,000	-	<b>23,196,000</b>	23,196,000	-	
Internal Funding	69,065,484	-	<b>69,065,484</b>	43,688,208	<b>(25,377,276)</b>	Refer to note 36
	<b>92,261,484</b>	-	<b>92,261,484</b>	<b>66,884,208</b>	<b>(25,377,276)</b>	

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 38 Changes in accounting policy.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgemental as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

### Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

#### Useful lives of property, plant and equipment and intangible assets

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the condition and use of the individual assets, in order to determine the remaining period over which the asset can and will be used.

#### Effective interest rate

The municipality used the government bond rate to discount future cash flows in the event of it being material.

#### Allowance for impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exist. All material differences are explained in the relevant notes to the annual financial statement

### 1.4 Investment property

Investment property is property (land ) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

## Accounting Policies

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### 1.4 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

The useful lives of items of property, plant and equipment have been assessed as follows:

Asset Class	Average useful life
Infrastructure	
• Streetlights	1-30 years
• Roads	1-30 years
• Pedestrian Footways	1-15 years
Community Assets	
• Office buildings and other buildings	1-30 years
• Cemeteries	1-30 years
• Community centres and halls	1-30 years
• Libraries	1-30 years
• Museums and art galleries	1-30 years
• Sports and related stadiums	1-30 years
• Golf courses	1-20 years
• Flood lighting	1-15 years
• Park homes	1-15 years
• Car wash	1-10 years
• Shed	1-30 years
• Houses/Hostels for municipal employees	1-30 years
• Public places	1-30 years
• Taxi rank	1-30 years
Other Assets	
• Tip/Dumping sites	1-15 years
• Office equipment	1-7 years
• Office machines	1-7 years
• Air conditioners	1-10 years
• Furniture and fittings	1-10 years
• Fire extinguishers	1-5 years
• Other fire-fighting equipment	1-15 years
• Computer equipment	1-10 years
• Security measures	1-20 years
• Train	1-30 years
• Engine	1-10 years
• Generator	1-10 years
• Boiler	1-10 years
• Loud hailer/ Public address system	1-10 years
• Fencing	1-20 years
Motor Vehicles	
• Trucks and light delivery vehicles	1-15 years
• Mini bus and delivery vehicle	1-7 years
• Tractors	1-15 years
• Motor cycles	1-5 years
Plant and Equipment	
• Graders	1-15 years
• Lawn mowers	1-7 years
• Compressors	1-5 years
• Firearms	1-15 years
• Radio equipment	1-10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.



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### 1.7 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3-5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

## Accounting Policies

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### 1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Other receivables from non-exchange transactions  
Receivables from exchange transactions  
Cash and cash equivalents

##### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Trade payables  
Finance lease obligation

##### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the municipality directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

### 1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

# Ingwe Local Municipality

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## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production units or similar units expected to be obtained from the assets by the municipality.

### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

### 1.12 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

# Ingwe Local Municipality

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### 1.12 Employee benefits (continued)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Defined contribution plans-KZN Joint Municipal Pension fund

The municipality has a defined contribution plan with Natal Joint Municipal Pension Fund . Payments to a defined contribution plan are charged as an expense as they fall due.



# Ingwe Local Municipality

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### 1.12 Employee benefits (continued)

#### Other employee benefits

The municipality provides long service awards benefits to certain qualifying employees after the completion of a minimum service period.

The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### 1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised.

The municipality has an obligation to rehabilitate its landfill site in terms of its licence stipulations. The amount of the provision is recognised at the present value of the expenditure expected to be required to settle the obligation.

### 1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.14 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest

Revenue arising from the use by others of entity assets yielding interest, service fees or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.15 Service charges

Waste removal is based on the size of the bin and the number of times it is collected. Waste removal services are billed on a monthly basis.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### Fines

Fines are economic benefits or service potential received or receivable by the municipality, as determined by court or other law enforcement body, as a consequence of breach of laws or regulations. Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

The best estimate is made to assess the probability of collecting fines revenue after initial recognition of an asset.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.16 Revenue from non-exchange transactions (continued)

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Services in-kind are not recognised but are disclosed in the notes to the annual financial statements.

### 1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.18 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.25 Events after reporting date

Events after reporting dates that are classified as adjusting events have been accounted for in annual financial statements. Events after reporting date that are classified as non-adjusting events after reporting date have been disclosed in the notes to the annual financial statements.

### 1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/06/30 to 2014/06/30.

### 1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.28 Commitments

The amount of capital commitments contracted for at the reporting date and which have not been recognised as liabilities are disclosed by way of a note

### 1.29 Value added tax

The municipality accounts for Value Added Tax on a cash basis.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>2. Receivables from non-exchange transactions</b>		
Fines	433,354	336,790
Suppliers deposits	113,471	113,471
Other receivables	51,374	132,812
	<b>598,199</b>	<b>583,073</b>

### Receivables from non-exchange transactions pledged as security

There were no receivables from non-exchange transactions that were pledged as security for overdraft facilities.

Prior year figures of receivables from non-exchange transactions have been restated to due to GRAP 23 implementation . Please refer to the note on " Change in Accounting Policy' for the details of the restatement

### 3. VAT receivable

VAT	1,755,107	1,945,124
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VAT is payable on the payment basis . Once payment is received from SARS ,VAT is payable over to SARS.

### 4. Receivables from exchange and non-exchange transactions

<b>Gross balances</b>		
Rates	6,239,685	6,230,051
Refuse	890,262	367,275
Rental	233,684	133,648
VAT portion on debtors	164,880	394,125
Sundry debtors	15,952	18,453
	<b>7,544,463</b>	<b>7,143,552</b>

### Less: Allowance for impairment

Provision for impairment	(7,096,530)	(5,737,745)
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### Net balance

Rates	6,239,685	6,230,051
Refuse	890,262	367,275
Rental	233,684	133,648
Vat portion on debtors	164,880	394,125
Sundry debtors	15,952	18,453
Provision for impairment	(7,096,530)	(5,737,745)
	<b>447,933</b>	<b>1,405,806</b>

### Included in above is receivables from exchange transactions

Rental	233,684	133,648
Refuse	890,262	367,275
Sundry debtors	15,952	18,453
	<b>1,139,898</b>	<b>519,376</b>

### Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	6,239,685	6,230,051
VAT Debtors	164,880	394,125
	<b>6,404,565</b>	<b>6,624,176</b>

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>4. Receivables from exchange and non-exchange transactions (continued)</b>		
<b>Rates</b>		
Current (0 -30 days)	621,257	432,331
31 - 60 days	728,587	675,452
61 - 90 days	550	54,242
91 - 120 days	467,503	534,241
> 121 days	4,421,787	4,533,785
	<b>6,239,684</b>	<b>6,230,051</b>
<b>Refuse</b>		
Current (0 -30 days)	161	-
31 - 60 days	48,902	12,885
61 - 90 days	45,534	12,270
91 - 120 days	37,427	9,624
> 121days	906,786	89,049
	<b>1,038,810</b>	<b>123,828</b>
<b>Rental</b>		
Current (0 -30 days)	2,387	4,332
31 - 60 days	15,654	45,017
61 - 90 days	15,654	34,246
91 - 120 days	15,272	33,061
> 121days	200,842	621,531
	<b>249,809</b>	<b>738,187</b>
<b>Vat debtors</b>		
> 121 days	164,880	394,125
<b>Sundry debtors</b>		
> 121 days	16,158	18,688



# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>4. Receivables from exchange and non-exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	83,312	-
31 - 60 days	84,344	10,166
61 - 90 days	96,355	13,768
91 - 120 days	101,948	100,435
> 121 days	1,058,014	1,095,059
	<b>1,423,973</b>	<b>1,219,428</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	15,434	13,018
31 - 60 days	35,455	2,467
61 - 90 days	176,535	5,973
91 - 120 days	201,847	255,634
>121 days	1,913,827	1,099,745
	<b>2,343,098</b>	<b>1,376,837</b>
<b>National and provincial government</b>		
Current (0 -30 days)	31,535	28,464
31 - 60 days	43,554	33,884
61 - 90 days	54,553	33,845
91 - 120 days	65,455	76,453
> 121 days	3,582,295	4,377,381
	<b>3,777,392</b>	<b>4,550,027</b>
<b>Total</b>		
Current (0 -30 days)	130,281	41,123
31 - 60 days	163,353	46,517
61 - 90 days	327,443	53,586
91 - 120 days	369,250	453,523
> 121 days	6,554,136	6,548,803
	7,544,463	7,143,552
Less: Allowance for impairment	(7,096,530)	(5,737,745)
	<b>447,933</b>	<b>1,405,806</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(5,737,745)	(1,935,322)
Bad debt written off	624,548	-
Debt impairment written off against allowance	(1,983,333)	(3,802,423)
	<b>(7,096,530)</b>	<b>(5,737,745)</b>
<b>5. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	113	113
Bank balances	2,522,444	652,440
Short-term deposits	49,861,182	67,085,903
Other cash and cash equivalents	36,526	36,838
	<b>52,420,265</b>	<b>67,775,294</b>

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 5. Cash and cash equivalents (continued)

Cash and cash equivalents held by the municipality that are available for use by the municipality	52,420,265	67,775,294
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For the purpose of Statement of financial position and the Cash flow statement, cash and cash equivalents includes cash -on hand, cash in banks and investments in money market instruments, net of outstanding overdraft.

The municipality does not have overdrawn current account facilities with its banker and therefore does not incur overdrawn current account. Interest is earned at different rates per annum on favourable balances..

The management of the municipality is of the opinion that the carrying value of the current investment deposits, bank balances and cash and cash equivalents recorded at amortised cost in the annual financial statement approximate their fair value.

The fair value of current investment deposits, bank balances and cash and cash equivalents was determined after considering the standard terms and conditions of agreement entered into between the municipality and the financial institutions.

### Cash and cash equivalents pledged as collateral

There is no cash and cash equivalents pledged as collateral.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
FNB Cheque account - 5255 1036 969	2,383,297	517,783	6,491,066	2,414,206	517,783	6,491,066
FNB Public sector cheque account- 6224 5385 093	36,526	36,838	36,837	36,526	36,838	36,837
FNB Salaries account - 6205 1076 688	108,237	106,838	120,412	108,237	106,838	120,412
Stanlib Yield fund -5511 304 58	8,727,876	8,252,210	7,818,854	8,727,876	8,252,210	7,818,854
Invesetec Fixed deposit - 50003450424	-	-	20,006,214	-	-	20,006,214
Investec Fixed deposit - 50003450424-1	-	53,968,997	16,029,170	-	53,968,997	16,029,170
Investec Fixed deposit- 50003450424-2	-	-	15,217,781	-	-	15,217,781
Investec Fixed deposit- 500034500424-3	-	-	10,381,056	-	-	10,381,056
FNB 32 Day stimela- 74165605518	661,765	640,986	621,829	661,765	640,986	621,829
FNB -Money market - 62008452071	6,591,601	4,223,710	212,392	6,591,601	4,223,710	212,392
Investec Fixed deposit - 442026-452	8,182,634	-	-	8,182,634	-	-
Investec Fixed deposit - 442026-454	15,548,653	-	-	15,548,653	-	-
FNB Fixed deposit - 74460230002	10,148,651	-	-	10,148,651	-	-
<b>Total</b>	<b>52,389,240</b>	<b>67,747,362</b>	<b>76,935,611</b>	<b>52,420,149</b>	<b>67,747,362</b>	<b>76,935,611</b>

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 6. Investment property

	2014			2013		
	Cost / Valuation	Accumulated impairment	Carrying value	Cost / Valuation	Accumulated impairment	Carrying value
Investment property	565,000	-	565,000	731,000	-	731,000

#### Reconciliation of investment property - 2014

	Opening balance	Transfers	Total
Investment property	731,000	(166,000)	565,000

#### Reconciliation of investment property - 2013

	Opening balance	Fair value adjustments	Total
Investment property	949,000	(218,000)	731,000

#### Pledged as security

No investment property is pledged as security

Investment property consists of land held for an undeterminable future use.

#### Details of valuation

Investment property mainly land and vacant stands are stated at fair values , which have been determined based on valuations by an independent valuer , Mr Jaap Dutoit of North West Valuation Services as at 30 June 2014 an industry specialist in valuing these types of properties .Mr Jaap du Toit is the member of Institute of Valuers of South Africa and have appropriate qualifications and experience in the valuation of properties in the relevant location. The valuation which confirms to International Standards of Valuation was arrived at by reference to market evidence of transaction prices for similar properties.

### 7. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1,630,000	-	1,630,000	1,630,000	-	1,630,000
Buildings	9,743,431	(4,542,591)	5,200,840	8,217,771	(3,141,179)	5,076,592
Plant and machinery	6,673,763	(622,340)	6,051,423	642,113	(353,072)	289,041
Furniture and fixtures	1,241,026	(919,628)	321,398	1,142,008	(794,522)	347,486
Motor vehicles	7,664,073	(2,818,892)	4,845,181	4,751,136	(2,266,170)	2,484,966
Office equipment	805,702	(349,521)	456,181	646,956	(359,703)	287,253
Computer equipment	2,567,043	(1,726,427)	840,616	1,236,554	(560,113)	676,441
Security measures	2,567,043	(580,539)	1,986,504	823,112	(500,187)	322,925
Leased Assets	359,000	(203,204)	155,796	359,000	(131,633)	227,367
Infrastructure	46,355,233	(7,352,480)	39,002,753	42,352,968	(8,112,185)	34,240,783
Community	98,353,114	(15,435,207)	82,917,907	73,470,877	(9,609,595)	63,861,282
Other property, plant and equipment	6,553,145	(1,224,123)	5,329,022	6,553,145	(660,933)	5,892,212
<b>Total</b>	<b>184,512,573</b>	<b>(35,774,952)</b>	<b>148,737,621</b>	<b>141,825,640</b>	<b>(26,489,292)</b>	<b>115,336,348</b>

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Assets under construction	Disposals	Other changes, movements	Depreciation	Total
Land	1,630,000	-	-	-	-	-	1,630,000
Buildings	5,076,592	704,803	820,857	-	-	(1,401,412)	5,200,840
Plant and machinery	289,041	6,168,362	-	(43,161)	-	(362,818)	6,051,423
Furniture and fixtures	347,486	108,239	-	(1,918)	-	(132,409)	321,398
Motor vehicles	2,685,462	2,979,890	-	(8,768)	-	(811,403)	4,845,181
Office equipment	287,253	261,826	-	(18,013)	-	(74,885)	456,181
Computer equipment	676,441	412,052	-	(15,310)	-	(232,567)	840,616
Security measures	403,400	1,743,931	-	-	-	(160,828)	1,986,504
Leased Assets	227,367	-	-	-	-	(71,571)	155,796
Infrastructure	34,240,781	4,022,332	9,485,120	-	(6,172,912)	(2,572,568)	39,002,754
Community	63,861,298	9,997,382	11,900,106	(324,512)	(63,733)	(2,452,635)	82,917,906
Other property, plant and equipment	5,611,227	-	-	-	-	(282,205)	5,329,022
	<b>115,336,348</b>	<b>26,398,817</b>	<b>22,206,083</b>	<b>(411,682)</b>	<b>(6,236,645)</b>	<b>(8,555,301)</b>	<b>148,737,621</b>

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Assets under constructions	Disposals	Other changes, movements	Depreciation	Total
Land	1,630,000	-	-	-	-	-	1,630,000
Buildings	4,119,395	253,500	15,000	-	918,756	(230,059)	5,076,592
Plant and machinery	121,518	148,807	-	-	108,592	(89,876)	289,041
Furniture and fixtures	316,544	14,662	-	-	143,611	(127,331)	347,486
Motor vehicles	2,611,748	539,256	-	-	140,651	(605,344)	2,686,311
Office equipment	143,581	134,889	-	-	77,214	(68,432)	287,253
Computer equipment	375,602	455,432	-	(12,864)	34,075	(175,805)	676,441
Security measures	365,280	465,314	-	-	(354,719)	(71,817)	404,058
Leased Assets	299,167	-	-	-	-	(71,800)	227,367
Infrastructure	19,940,874	5,283,953	10,955,129	-	-	(1,939,175)	34,240,781
Community	43,309,078	7,521,101	15,210,469	-	(718,382)	(1,462,474)	63,859,793
Other property, plant and equipment	5,892,261	-	-	-	565	(281,599)	5,611,227
	<b>79,125,048</b>	<b>14,816,915</b>	<b>26,180,598</b>	<b>(12,864)</b>	<b>350,363</b>	<b>(5,123,712)</b>	<b>115,336,350</b>

#### Pledged as security

No property plant and equipment was placed as security for financial liabilities.

Included in other assets is the train and locomotives .

#### Useful lives and impairment

According to GRAP 17 :Property Plant and Equipment , all useful lives of all assets must be reviewed on an annual basis .The useful lives of assets were reviewed according to the requirements of GRAP 17 and there no changes in useful lives .

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 8. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	505,581	(326,801)	178,780	505,581	(247,603)	257,978

#### Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software	257,978	(79,198)	178,780

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	211,160	87,220	32,027	(72,429)	257,978

#### Pledged as security

All of the municipality's intangible assets are held under freehold interest and no intangible assets have been pledged as security for any liabilities of the municipality.

#### Restricted title

All computer software are issued under licence and are restricted to the condition under which each licence are issued.

### 9. Finance lease obligation

#### Minimum lease payments due

- within one year	414,207	360,180
- in second to fifth year inclusive	557,492	972,123
	971,699	1,332,303
less: future finance charges	(681,591)	(1,017,664)
<b>Present value of minimum lease payments</b>	<b>290,108</b>	<b>314,639</b>

#### Present value of minimum lease payments due

- within one year	52,152	23,418
- in second to fifth year inclusive	237,956	291,221
	<b>290,108</b>	<b>314,639</b>

Non-current liabilities	237,956	291,222
Current liabilities	52,152	23,418
	<b>290,108</b>	<b>314,640</b>

The average lease term is 5 years. The capitalised liabilities are in respect of office equipment leased by the municipality. The lease agreements neither provide the nominal nor the effective interest rates, accordingly, internal rates of return applicable to each lease were determined and accordingly applied to amortise each of the respective lease repayments. Therefore, the average effective borrowing rate is 12%, which is subject to a 15% escalation per annum. The majority of these leases have fixed repayment terms. The agreements do not provide for contingent rental payments.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>10. Payables from exchange transactions</b>		
Trade payables	4,795,764	2,044,433
Retention -Contracts	7,177,146	5,147,136
Staff leave accrual	1,786,186	1,363,383
Other payables	1,959,549	699,360
	<b>15,718,645</b>	<b>9,254,310</b>

Prior year figures of trade payables have been restated to correctly comply with GRAP 1 Presentation of Financial Statements . Please refer to the note for Comparative Information for the details of restatement .

### 11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Expanded public works programme(EPWP)	229,564	-
Municipal Infrastructure Grant (MIG)	-	4,655,849
KZN Dept of human settlements and infrastructure ( Bulwer low cost housing)	722,516	722,516
KZN Dept of human settlements and infrastructure (Donnybrooke)	324,550	324,550
KZN Dept of human settlements and infrastructure ( Ngcobo's Grant)	727,255	727,255
KZN Dept of human settlements and infrastructure(Tar's Valley)	503,002	503,002
Electrification Donnybrooke and Xosheyakhe	-	196,599
	<b>2,506,887</b>	<b>7,129,771</b>

### Movement during the year

Balance at the beginning of the year	7,129,771	29,309,529
Additions during the year	25,161,000	33,423,800
Income recognition during the year	(29,783,884)	(49,924,195)
GRAP 23 Implementation	-	(5,679,363)
	<b>2,506,887</b>	<b>7,129,771</b>

See note on government grants and subsidies for reconciliation of grants from National/Provincial Government.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 12. Provisions

#### Reconciliation of provisions - 2014

	Opening Balance	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	1,264,307	(879,440)	384,867

#### Reconciliation of provisions - 2013

	Opening Balance	Reversed during the year	Total
Environmental rehabilitation	2,092,096	(827,789)	1,264,307

The provision for rehabilitation of refuse disposal sites relates to the legal obligation to rehabilitate the disposal sites. The municipality operates two refuse disposal sites. Both sites have been in operation for nearly ten years and assuming the current level of usage of these disposal sites is maintained, it is anticipated that they will reach full capacity after 2 financial years, wherein they will be permanently closed and thus rehabilitated. The provision amount disclosed represents the present value of future estimated rehabilitation costs (material and labour inclusive of professional environmental expertise). The discount rate used is 10% and 9.5 % and estimated airspace is 6 and 1 years for Bulwer and Creighton respectively .

Prior year figures of provisions have been split between landfill site and long-service awards to correctly comply with GRAP 1 Presentation of financial statements and to ensure adequate disclosure for each of the provision in accordance with its GRAP Standards applicable to it.

#### Long service awards benefits

Balance at the beginning of the year	574,042	370,964
Current service cost	104,972	47,387
Interest costs	41,651	26,000
Benefits paid	(25,000)	(7,266)
Actuarial losses ( Gains) recognised	(472,665)	136,957
	<b>223,000</b>	<b>574,042</b>

The municipality offers certain employees leave awards that may be exchanged for cash on certain anniversaries of commencing service determined by the length of service

The most recent actuarial valuation of plan assets of long service awards and the present value of the defined benefit obligation were carried out at 30 June 2014 by ZAQ Finance , Fellow of the Actuarial Society of South Africa . The present value of the defined benefit obligation , and the related current service cost and past service cost, were measured using the Projected Credit Method .

#### The principal assumptions used for the purpose of actuarial valuations are as follows:

Discount rate	7 %	7 %
CPI ( Consumer Price Index)	6 %	5 %
Normal salary increase rate	7 %	6 %
	-	-

#### The amount recognised in the Statement of Financial Position are as follows

Present value of unfunded obligations	223,000	574,042
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#### The amount recognised in the Statement of Financial Performance are as follows:



# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>12. Provisions (continued)</b>		
Current service costs	104,972	47,387
Interest cost	41,651	26,000
Actuarial losses/(gains)	(472,665)	136,957
	<b>(326,042)</b>	<b>210,344</b>

### Movements in the present value of the defined benefit obligation were as follows:

Balance at the beginning of the year	574,042	370,964
Current service costs	104,972	47,387
Interest costs	41,651	26,000
Benefits paid	(25,000)	(7,266)
Actuarial losses/(gains)	(472,665)	136,957
	<b>223,000</b>	<b>574,042</b>

### Movements in the present value of plan assets were as follows:

Contributions from employer	25,000	7,266
Benefits paid	(25,000)	(7,266)
	<b>-</b>	<b>-</b>

### The history of experienced adjustments is as follows:

Present value of obligation	223,000	574,042
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### Post retirement health care benefits obligations

Balance at the beginning of the year	1,397,624	959,339
Current service cost	160,728	242,393
Interest costs	124,659	77,946
Actuarial (Gains ) Losses recognised	121,144	117,946
	<b>1,804,155</b>	<b>1,397,624</b>

The municipality provide certain post -retirement health care benefits liability by funding the medical aid contribution of qualifying retired members of the municipality . According to the rules of the Medical Aid funds , with which the municipality is associated , a member (Who is on the current Conditions of service ) is entitled to remain a continued member of such medical aid fund on retirement , in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operate an unfunded defined benefit plan for these qualifying employees.

The most recent Actuarial valuations of plan assets and present value of the unfunded defined benefit obligation were carried out at 30 June 2014 by ARCH Actuarial Consulting , a fellow of the Faculty of Actuaries and Fellow of Actuarial Society of South Africa. The present value of the defined benefit obligation , and the related current service costs and past service costs were measured using the Projected Unit Credit Method.

### The members of the post -employment benefit plan are made up as follows:

In-service members ( Employees)	44	44
In-service members ( Non-employee)	66	66
	<b>110</b>	<b>110</b>

### The liability in respect of past service has been estimated as follows:

In-service members(Members)	1,274,137	978,524
In-service members ( Non-members)	530,018	419,100
	<b>1,804,155</b>	<b>1,397,624</b>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes.

- Key Health , Samwumed and LA Health.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 12. Provisions (continued)

The future -service cost for the ensuing year is estimated to be R160 728 , whereas the interest cost for the year after is estimated to be R221 479.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

#### Assumptions used at the reporting date (%)

Health care cost inflation	9	7
Expected inflation	7	6
Discount rate	10	9
Salary inflation	1	1
	-	-

The amount recognised in the statement of financial position is as follows:

#### Carrying amount

Present value of unfunded obligations	1,804,155	1,397,624
---------------------------------------	-----------	-----------

The amount recognised in the statement of financial performance

#### Heading

Current service cost	160,728	242,393
Interest cost	124,659	77,946
Actuarial gains and losses	121,144	117,946
<b>Total included in employee related costs</b>	<b>406,531</b>	<b>438,285</b>

Movement in the present value of the defined benefit obligation were as follows:

Balance at the beginning of the year	1,397,624	959,339
Current service cost	160,728	242,393
Interest cost	124,659	77,946
Actuarial gains and losses	121,144	117,946
	<b>1,804,155</b>	<b>1,397,624</b>

### 13. Service charges

Refuse removal	524,198	443,675
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# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>14. Property rates</b>		
<b>Rates received</b>		
Residential	661,816	528,873
Commercial	1,353,858	640,951
State	887,590	1,969,382
Small holdings and farms	43,172	4,872
PSI	15,750	6,355
Farms	2,231,389	1,542,096
	5,193,575	4,692,529
Property rates - penalties imposed	253,195	434,180
	<b>5,446,770</b>	<b>5,126,709</b>
<b>Valuations</b>		
Business and Commercial	68,033,000	52,950,002
Industrial	2,130,000	2,130,000
Residential	86,227,000	69,598,000
State owned	244,042,000	102,974,008
State trust land	207,396,000	136,039,000
Educational	1,350,000	1,356,000
Farm (Agricultural)	780,294,799	795,561,808
Small holdings agricultural	28,941,500	26,635,000
PSI	4,558,000	65,852,000
Municipal	26,648,000	24,262,000
Places of worship	39,517,000	35,813,000
Public benefit organisations	4,515,000	5,515,000
MUL- Multiple use	2,484,000	5,473,000
Residential ( Lower use)	11,864,000	13,283,000
	<b>1,508,000,299</b>	<b>1,337,441,818</b>

Valuation of properties within the boundaries of the Municipal area are performed five years. The current valuation in use came into effect on 1 July 2013. Interim valuations are carried out to take account of changes in individual property values due to subdivisions, property improvements etc.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	56,996,141	50,733,453
National Dept of Treasury (Municipal Systems Improvement Grant)	890,001	825,019
National Dept of Treasury (Financial Management Grant)	1,650,000	1,511,693
KZN Dept of Sports and Recreation	1,050,000	-
National Dept of Treasury (Expanded Public Works Programme)	770,436	-
KZN Dept of Co-Operative Governance (Property Rates)	-	70,624
KZN Dept of Arts and Culture (Libraries)	939,000	631,774
National Dept of Energy ( Mahwaqa and Tars valley)	-	14,419,656
National Dept of Energy ( Electrification of Tars Valley)	196,599	440,888
Dept of Arts and Culture ( Bhengu Art Gallery)	-	914,429
Development Bank of Southern Africa( Property Rates Grant)	-	160,432
	<b>62,492,177</b>	<b>69,707,968</b>
<b>Capital grants</b>		
National Dept of Treasury (Municipal Infrastructure Grant)	26,276,849	24,782,784
KZN Dept of Co-operative Governance and Traditional Affairs(Corridor Development)	29,988	6,172,912
	<b>26,306,837</b>	<b>30,955,696</b>
	<b>88,799,014</b>	<b>100,663,664</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

### KZN Dept of Co-operative Governance and Traditional Affairs

Balance unspent at beginning of year	-	27,320
GRAP 23 implementation	-	(27,320)
	-	-

The grant is used to subsidise to develop the Creighton area. Conditions of the grant have been met. There was no delay or withholding of the grant..

### KZN Dept of Sports and Recreation

Current-year receipts	1,050,000	525,000
Transferred to revenue	(1,050,000)	(525,000)
	-	-

The grant is used to subsidise the cost of upgrading Kilmon Horse Racing .There was no delay or withholding of the grant.

### KZN Dept of Co-operative Governance (Local Government Expert)

Balance unspent at beginning of year	-	35,148
Transferred to revenue	-	(35,148)
	-	-

The grant was used to build financial management capacity at the municipality. Conditions of the grant have been met . There was no delay or withholding of the grant.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 15. Government grants and subsidies (continued)

#### National Dept of Treasury( Municipal Systems Improvement Grant)

Balance unspent at beginning of year	-	25,019
Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(825,019)
	-	-

This grant is used to capacitate the IDP /PMS department of the municipality . Conditions of the grant have been met. There was no delay or withholding of the grant..

#### KZN Dept of Co-operative Governance and Traditional Affairs(GIS)

Balance unspent at beginning of year	-	112,571
Transferred to revenue	-	(112,571)
	-	-

This grant was used to subsidise the cost of Government Information System. There was no delay or withholding of the grant.

#### Municipal infrastructure investment plan

Balance unspent at beginning of year	-	25,136
Transferred to revenue	-	(25,136)
	-	-

This grant was used to subsidise the cost of maintaining infrastructure . There was no delay or withholding of the grant.

#### KZN Dept of Arts and Culture (Librarian Subsidy)

Balance unspent at beginning of year	-	66,514
Current-year receipts	939,000	499,800
Transferred to revenue	(939,000)	(566,315)
	-	-

This grant was used to subsidise the cost of running the library . There was no delay or withholding of the grant..

#### KZN Dept of Co-operative Governance and Traditional Affairs (Property rating)

Current-year receipts	-	70,623
Conditions met - transferred to revenue	-	(70,623)
	-	-

This grant was used to subsidise the cost of valuation roll . Conditions of the grant have been met . There was no delay or withholding of the grant.

#### KZN Dept of Co-operative Governance ( Communication Strategy)

Balance unspent at beginning of year	-	35,902
Transferred to revenue	-	(35,902)
	-	-

This grant was used to subsidise the cost of communication strategy . There was no delay or withholding of the grant.

#### Development Bank of Southern Africa (DBSA grant - rates service providers)

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	-	160,432
Conditions met - transferred to revenue	-	(160,432)
	-	-

This grant was used to subsidise the cost of improving the valuation roll. Conditions of the grant have been met. There was no delay or withholding of the grant.

### National Dept of Treasury(Finance Management Grant)

Balance unspent at beginning of year	-	11,693
Current-year receipts	1,650,000	1,500,000
Conditions met - transferred to revenue	(1,650,000)	(1,511,693)
	-	-

This grant was used to subsidise the cost of improving sound financial management and to pay salaries for finance management interns. Conditions of the grant have been met . There was no delay or withholding of the grant.

### National Dept of Treasury( Municipal Infrastructure Grant)

Balance unspent at beginning of year	4,655,849	9,339,634
Current-year receipts	21,621,000	20,099,000
Conditions met - transferred to revenue	(26,276,847)	(24,782,787)
	-	<b>4,655,849</b>

This grant was used to subsidise the cost of building infrastructure . Conditions of the grant have been met . There was no delay or withholding of the grant.

### KZN Dept of Sports and Recreation (Nkwezela sports stadium)

Balance unspent at beginning of year	-	135,413
Current-year receipts	-	150,000
Transferred to revenue	-	(285,413)
	-	-

This grant was used to build Nkwezela sports stadium . Conditions of the grant have been met . There was no delay of withholding of the grant.

### Basic Book keeping Grant

Balance unspent at beginning of year	-	21,246
Transferred to revenue	-	(21,246)
	-	-

This grant was used to provide training in basic bookkeeping for finance staff .There was no delay or withholding of the grant.

### KZN Dept of Arts and Culture (Gerald Bhengu art gallery grant)

Balance unspent at beginning of year	-	850,000
Transferred to revenue	-	(850,000)
	-	-

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 15. Government grants and subsidies (continued)

This grant was used to subsidise the costs of operations in the library. There was no delay or withholding of the grant.

#### Expanded Public Works Programme(EPWP)

Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(770,435)	(1,000,000)
<b>Condition to be met (Transfer to creditors see note 11)</b>	<b>229,565</b>	<b>-</b>

The grant is utilised for creating of job opportunities in environmental and cultural,infrastructure and the social eradication of poverty and capacity building and skills programmes.Certain conditions of the grant have been met . There was no delay or withholding of the grant.

#### KZN Dept of Human Settlements and Infrastructure ( Bulwer low cost housing)

Balance unspent at beginning of year	722,516	722,516
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This grant was used to build Bulwer low cost housing . Conditions of the grant have not been met. There was no delay or withholding of the grant.

#### KZN Dept of Human Settlements and Infrastructure( Donnybrooke low cost housing)

Balance unspent at beginning of year	324,550	324,550
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This grant was used to subsidise the cost of the building low cost housing at Donnybrooke. Conditions of the grant have not been met. There was no delay or withholding of the grant.

#### KZN Dept of Human Settlements and Infrastructure ( Ngcobo's grant)

Balance unspent at beginning of year	727,255	727,255
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This grant was used to subsidise the cost of building the low cost housing . Conditions of the grant have not been met. There was no delay or withholding of the grant.

#### KZN Dept of Human Settlements and Infrastructure(Tars valley)

Balance unspent at beginning of year	503,003	503,003
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This grant was used to subsidise the cost of low cost housing . Conditions of the grant have not been met. There was no delay or withholding of the grant.

#### National Dept of Energy (Electrification - Donnybrooke and Xosheyakhe)

Balance unspent at beginning of year	196,600	637,488
Conditions met - transferred to revenue	(196,599)	(440,888)
	<b>-</b>	<b>196,600</b>

This grant was used to subsidise the cost of providing electricity . Conditions of the grant have been met. There was no delay of withholding of the grant..

#### KZN Dept of Co-operative Governance andTraditional Affairs (Corridor development )

Balance unspent at beginning of year	-	10,000,000
Current-year receipts	30,000	-
Conditions met - transferred to revenue	(30,000)	(6,172,912)
Transferred to revenue	-	(3,827,088)

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 15. Government grants and subsidies (continued)

- -

This grant was used to subsidise the cost of corridor development . There was no delay or withholding of the grant.

#### National Dept of Energy (Electrification phase 2)

Balance unspent at beginning of year	-	5,419,656
Current-year receipts	-	9,000,000
Conditions met - transferred to revenue	-	(14,419,656)
	-	-

This grant was used to subsidise the cost of providing electricity . Conditions of the grant have been met . There was no delay or withholding of the grant.

### 16. Other revenue

Other revenue	367,315	2,996,267
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#### The amount included in other revenue arising from exchanges of goods or services comprises the following:

Printing income	3,729	12,594
Rates clearance certificates	7,843	1,300
Commission received	1,120	1,422
Tender documents	274,217	144,640
Sundry income	60,828	249,542
Pound income	19,482	5,306
Sale of hay	96	25,000
Building plans fees	-	1,100
Landfill site	-	755,229
Electricity income	-	132
Donation - Sisonke	-	1,800,000
	367,315	2,996,267

### 17. Investment revenue

#### Interest revenue

Investment Revenue	3,936,313	4,504,231
Interest charged on trade and other receivables	6,065	5,123
	3,942,378	4,509,353



# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>18. Employee related costs</b>		
Salaries and Wages	17,963,479	13,938,498
Bonus	1,532,269	724,564
Contributions for Medical Aid,Pension and UIF	3,074,039	2,534,397
Leave pay provision charge	1,364,097	1,169,627
Travel and Standby Allowances	836,105	733,706
Overtime payments	179,194	421,827
Provision for long service awards	55,489	203,078
Housing benefits and allowances	78,478	6,408
	<b>25,083,150</b>	<b>19,732,106</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	592,936	337,422
Car ,Entertainment, Housing, Susbsistence and Other	240,000	120,000
Contributions to UIF, Medical and Pension Funds	152,517	892
Other	-	97,500
	<b>985,453</b>	<b>555,814</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	320,120	534,708
Car , Entertainment , Housing , Subsistence and Other	185,912	100,000
Contributions to UIF, Medical and Pension Funds	13,431	1,487
	<b>519,463</b>	<b>636,195</b>
<b>Remuneration of IPD Manager</b>		
Annual Remuneration	720,060	699,594
Car ,Entertainment, Housing, Subsistence and Other	44,056	44,056
Contributions to UIF, Medical and Pension Funds	34,406	1,785
	<b>798,522</b>	<b>745,435</b>
<b>Remuneration of Corporate Services Manager</b>		
Annual Remuneration	720,060	623,650
Car , Entertainment, Housing, Subsistence and Other	44,056	120,000
Contributions to UIF, Medical and Pension Funds	34,406	1,785
	<b>798,522</b>	<b>745,435</b>
<b>Remuneration of Community Manager</b>		
Annual Remuneration	608,269	563,650
Car ,Entertainment, Housing , Susbsistence and Other	180,000	180,000
Contributions to UIF, Medical and Pension Funds	9,824	1,785
	<b>798,093</b>	<b>745,435</b>

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>19. Remuneration of Councillors</b>		
Mayor	658,394	624,519
Deputy Mayor	531,457	505,501
Speaker	531,457	504,450
Executive Committee Members	999,446	950,559
Councillors	3,668,028	3,346,052
	<b>6,388,782</b>	<b>5,931,081</b>
<b>In-kind benefits</b>		
The Mayor, Deputy Mayor, Speaker and two Exco member are full-time. Each of them are provided with an office and secretarial support at the cost of the municipality. Councillors were paid within the Upper Limits envisaged in section 219 of the constitution. The Mayor, Deputy Mayor and Speaker are provided with municipal vehicles at the cost to the council.		
<b>20. Depreciation and amortisation</b>		
Property, plant and equipment	8,555,301	4,697,016
Intangible assets	79,467	-
	<b>8,634,768</b>	<b>4,697,016</b>
<b>21. Finance Costs</b>		
Interest paid to creditors	63,028	364
Interest paid on finance leases	339,652	299,405
	<b>402,680</b>	<b>299,769</b>
<b>22. Contracted services</b>		
Security Services	1,312,827	875,833

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>23. General expenses</b>		
Accounting fees	351,475	400,497
Advertising	466,425	375,929
Anti- Corruption Measures	126,635	-
Arts and Culture	276,434	337,463
Auditor fees External	980,052	1,004,050
Bhengu Art Gallery & Museum	1,079,914	1,238,611
Catering	385,984	379,506
Cleaning	314,287	134,060
Community functions	835,476	764,335
Computer expenses	212,596	253,308
Consultants fees	1,809,154	1,531,809
Cont. disaster recovery	142,502	10,320
Sundry Expenses	871,226	143,018
Ward committees	745,156	99,897
Educational support	689,345	414,227
Electricit: Mahwaqa, Tarrs and Qulashe	821,894	8,950,456
Electricity	648,921	521,530
Electricity	8,886,718	-
Electrification Junction,Sokhela	256,902	8,232,309
Electrification Phase 2	305	437,034
Emasameni electrification Project	163,265	-
Free Basic Electricty	560,285	291,534
Fuel and oil	1,175,990	850,454
HIV/AIDS expenses	53,200	137,642
IDP review	1,111,665	160,608
Insurance	571,067	407,620
Internal audit	1,211,656	352,985
LED Strategy	245,928	91,062
Legal Expenses	136,076	319,281
MPRA service providers	-	793,758
Mayoral Cup	204,900	265,350
Curator Housing Centocow gallery	208,822	-
Municipal Relief Fund	122,499	95,213
Other Expenses	771,649	360,921
Poverty Alleviation	245,884	95,488
Printing and stationery	665,100	534,702
Protective clothing	203,892	148,590
Public Participation	747,943	758,087
Special Programs	788,843	549,524
Sports Development	274,066	383,507
Staff travelling, accomodation & travelling	3,267,749	2,602,744
Subscriptions and membership fees	607,071	332,496
Telephone	1,222,490	754,791
Tolls and Parking	150,000	-
Training	108,407	10,257
Transport and freight	138,224	-
Ward Committee Expense	689,140	546,798
Xohleyakhe, Bulwer, Donnybrook Electrification	-	161,100
Youth Development	457,606	455,003
	<b>36,004,818</b>	<b>36,687,870</b>

Certain line items of general expenditure for prior year 2012-2013 were grouped together to other expenses due to their materiality and presentation of the AFS -GRAP 1 . Please refer to the note on comparative information for the details.

## 24. Auditors' remuneration

Fees	980,052	1,004,050
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# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>25. Cash generated from operations</b>		
Surplus	15,472,634	40,315,013
<b>Adjustments for:</b>		
Depreciation and amortisation	8,634,768	4,697,016
Loss on sale of assets	199,255	-
Fair value adjustments	-	218,000
Impairment loss traffic fines	425,754	-
Debt impairment	-	91,058
Bad debts provision	(879,440)	1,835,481
Other non-cash items	-	(1,800,000)
Other non-cash items	-	(827,789)
Other non-cash items	-	203,078
<b>Changes in working capital:</b>		
Trade and Other Receivables from exchange transactions	957,874	1,963,478
Other receivables from non-exchange transactions	(15,126)	166,808
Payables from exchange transactions	6,674,895	491,779
VAT	190,018	(1,192,999)
Unspent conditional grants and receipts	(4,622,875)	(16,500,399)
	<b>27,037,757</b>	<b>29,660,524</b>

## 26. Commitments

### Authorised capital expenditure

#### Already contracted for but not provided for

• Infrastructure Assets	4,903,361	7,816,447
• Community Assets	8,092,042	14,950,896
• Other Assets	3,007,702	-
	<b>16,003,105</b>	<b>22,767,343</b>

#### Not yet contracted for and authorised by accounting officer

• Infrastructure Assets	7,237,784	16,164,500
• Community Assets	38,084,000	31,850,000
• Other Assets	3,370,000	12,165,000
	<b>48,691,784</b>	<b>60,179,500</b>

### This expenditure will be financed from:

Government	31,403,516	57,181,843
Own funds	33,291,373	25,765,000
	<b>64,694,889</b>	<b>82,946,843</b>

## 27. Unauthorised expenditure

Opening balance	4,100,009	-
Unauthorised expenditure - Current year	5,632,898	5,033,921
Unauthorised expenditure condoned	(4,100,009)	(933,912)
	<b>5,632,898</b>	<b>4,100,009</b>

The adjusted budget has been exceeded by the following amounts.

- Depreciation and amortisation (R3 593 131)
- Impairment Loss (R425 754)
- Finance Costs (R55 680)
- Bad Debts (R1 558 333)

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 27. Unauthorised expenditure (continued)

A detailed report will be prepared and submitted to council to condone the unauthorised expenditure

### 28. Fruitless and wasteful expenditure

Opening balance	364	-
Fruitless and wasteful expenditure	63,208	364
	<b>63,572</b>	<b>364</b>

The fruitless and wasteful expenditure relates to penalties for late payments to suppliers. All the necessary MFMA processes regarding the fruitless and wasteful expenditure will be followed.

### 29. Irregular expenditure

Opening balance	29,329,746	3,164,720
Irregular expenditure -current year	7,009,679	26,165,026
Condoned or written off by council	(35,625,462)	-
	<b>713,963</b>	<b>29,329,746</b>

#### Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
There were only two quotations for payments to suppliers amounting to R255 726.00 resulting in contravention of the SCM Policy.	A detailed report will be submitted to council for condonement.	255,726
Awards amounting to R38 825 was made to persons in service of the state resulting in contravention of the SCM Policy	A detailed report will be submitted to council to condone the irregular expenditure.	38,825
There were no tax clearance certificates for payments to suppliers amounting to R71 567.00 resulting in non- compliance with SCM Policy.	A detailed report will be submitted to council for condonement.	71,567
The bid adjudication committee was not properly constituted for the awards made amounting to R6 295 716 resulting in non-compliance with SCM .	A detailed was submitted to council for condonement.	6,295,716
Awards amounting to R58 234 were awarded to persons in service of the state resulting in contravention of the SCM Regulations.	A detailed report will be submitted to council for condonement	58,234
The irregular expenditure amounting to R289 611 was incurred as a result of contravention of SCM Regulations.	A detailed report will be submitted to council.	289,611
		<b>7,009,679</b>

#### Irregular expenditure -Previous year

Irregular expenditure for the prior financial year amounting to R29 329 746 was as a result of various contravention of SCM Regulations and control measures has been put in place to ensure compliance with SCM is adhered to . The detailed report was submitted to council for condonement.	29,329,746
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# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 30. Employee benefit obligations

#### Defined contribution plan

Ingwe Municipality provides retirement benefits to all its employees and councillors, who belong to different pension schemes. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

The municipality is under no obligation to cover any unfunded benefits.

#### Joint pension fund

All full time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Super Annuation and Provident Funds. These funds are governed by Pension Fund Act and include both defined benefit and defined contribution schemes.

Super annuation Fund is a multi-employer plans and is subject to either a tri -annual, bi-annual or annual actuarial valuation, the details of which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension funds, due to the following reasons:

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating municipality.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating municipality.
- (iii) The same rate of contribution applies to all participating municipalities and no regard is paid to difference in the membership distribution of the participating municipalities.

It is therefore seen that each fund operates as a single entity and is not divided into sub -funds for each participating municipality.

The only obligation of the municipality with respect to the retirement benefits plans is to make the specified contributions. Where Councillors /Employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

### 31. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	450,000	-
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#### Audit fees

Current year payments	980,052	992,242
Amount paid - current year	(980,052)	(992,242)
	-	-

#### PAYE and UIF

Current year payroll deductions	4,432,348	3,548,040
Amount paid - current year	(4,093,957)	(3,548,040)
<b>Balance unpaid (Included in creditors)</b>	<b>338,391</b>	<b>-</b>

## Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>31. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Pension and Medical Aid Deductions</b>		
Opening balance	22,789	-
Current year payroll deductions	5,396,137	3,342,413
Amount paid - current year	(4,914,526)	(3,319,624)
<b>Balance unpaid ( Included in creditors)</b>	<b>504,400</b>	<b>22,789</b>

#### VAT

VAT receivable	1,755,107	1,945,125
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The net of VAT input payables and VAT output receivables are shown in note 3 .All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding as at 30 June 2014

#### 32. SCM Deviations

1. Payments amounting to R102 642.00 for various suppliers were incurred as a results of SCM processes not followed as these are the sole suppliers of the relevant goods and services. A detailed report was submitted to the council to condone the SCM deviations with adequate reasons for deviations.

2. The SCM processes for payments to various suppliers amounting to R105 606 was not followed as it was impractical to follow the normal SCM processes . The Accounting Officer prepared and submitted a detailed report to Council for condonment with adequate details.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 33. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

The Directorate : Budget and Treasury Office monitors and manages the financial risks related to operations through internal policies and procedures. These risks include interest rate risks, credit risks and liquidity. Compliance with policies and procedures is reviewed continuously by the internal auditors and annual by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal auditors responsible for initiating a control framework and monitoring and responding to potential risks, reports to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

30 June 2014, Maturity profile	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Finance lease obligations	52,134	237,956	-	290,090
Trade payables	15,718,645	-	-	15,718,645
Subtotal	15,770,779	237,956	-	16,008,735
	<b>15,770,779</b>	<b>237,956</b>	<b>-</b>	<b>16,008,735</b>

30 June 2013, Maturity profile	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Finance lease obligations	23,418	291,221	-	314,639
Trade payables	9,254,310	-	-	9,254,310
Subtotal	9,277,728	291,221	-	9,568,949
	<b>9,277,728</b>	<b>291,221</b>	<b>-</b>	<b>9,568,949</b>



# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 33. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

#### Financial instruments

Receivables from non-exchange transactions	598,199	583,073
Receivables from exchange transactions	447,933	1,405,806
Bank balances and cash	52,420,265	67,773,294
	<b>53,466,397</b>	<b>69,762,173</b>

### 34. Prior period errors

During the year various errors were discovered in the accounting records of the municipality. This resulted in prior year figures of accumulated surplus and other statement of financial position components being restated. The details are summarised below

#### 34.1 Unspent Conditional Grants

Balance previously published as per AFS 30 June 2013	-	29,309,529
Geographic Information Systems	-	(112,570)
Municipal Infrastructure	-	(25,136)
Township Establishment	-	(27,321)
Communication Strategy	-	(35,903)
Local Government Strategy	-	(35,147)
Sports and Recreation	-	(219,965)
Basic Bookkeeping	-	(21,245)
Corridor Development	-	(3,827,087)
Museums Subsidies	-	(850,000)
Sports and Recreation	-	(525,000)
Transactions and movement in 2012-2013	-	(16,500,384)
<b>Balance now published as per AFS 30 June 2013</b>	<b>-</b>	<b>7,129,771</b>

During the year the municipality discovered that it did not implement GRAP 23 Revenue from non-exchange transactions regarding the accounting of government grants. The Standard was applicable for the reporting periods on or after 30 April 2012 ie GRAP 23 was applicable for the reporting period 30 June 2013.

The accumulated surplus and unspent conditional grants of prior periods were affected by the implementation of GRAP 23 and the details as per above:

#### 34.2 Trade payables from exchange transactions

##### Trade payables

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013	
<b>34. Prior period errors (continued)</b>			
	Audited AFS	Adjustment	Restated 2013
Trade payables	4,276,478	-	4,276,478
Sisonke District Municipality	-	(79,643)	(79,643)
Accrued interest receivable	-	(88,115)	(88,115)
	<b>4,276,478</b>	<b>(167,758)</b>	<b>4,108,720</b>

Prior year figures of trade payables and accumulated surplus have been restated to correctly reflect the creditors of the municipality thus eliminating creditors incorrectly recognised.

### 34.3 Trade debtors

	Audited AFS	Adjustments	Restated 2013
Sundry debtors	258,033	-	258,033
Makro debit balance	-	(11,750)	(11,750)
	<b>258,033</b>	<b>(11,750)</b>	<b>246,283</b>

Long outstanding Makro debit balances were cleared as this balance was incorrectly recognised as part of other debtors. The accumulated surplus and trade debtors of prior year was restated. The restated 30 June 2013 balance of trade debtors including the change in accounting policy as per note 40 is R583 073.00

### 34.4 Accumulated surplus

	Accumulated surplus	Total
Balance as per AFS 30 June 2013	- (163,323,849)	(163,323,849)
Change in accounting policy(Traffic fines)	- (336,790)	(336,790)
GRAP 23 implementation(Grants)	- (5,679,364)	(5,679,364)
Sisonke District Municipality deposit	- (79,643)	(79,643)
Accrued interest receivable	- (88,115)	(88,115)
Makro unknown balance	- 11,750	11,750
Other deposits	- (1,543)	(1,543)
Health care medical liability	- 1,397,624	1,397,624
	<b>- (168,099,930)</b>	<b>(168,099,930)</b>

The changes in accounting policy and correction of prior period errors have affected the accumulated surplus as per above

### 34.5 Post employment benefits

Opening accrued liability	-	959,339
Current service costs	-	242,393
Interest costs	-	77,946
Actuarial gains and losses	-	117,946
<b>Balance now published as per AFS 30 June 2013</b>	<b>-</b>	<b>1,397,624</b>

During the year the municipality implemented the South African Local Government Bargaining Council of the collective agreement that requires the municipality to provide for the post health care to the retired members of the municipality. The liability was recognised from 2013 in order to comply with GRAP 3. The details as per table above.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>35. Revenue</b>		
Service charges	524,198	443,675
Rental of facilities and equipment	295,553	212,190
Other income - (rollup)	367,315	2,996,267
Interest received	3,942,378	4,509,354
Property rates	5,193,575	4,692,529
Property rates - penalties imposed	253,195	434,180
Government grants & subsidies	88,799,014	100,663,664
Fines	708,878	110,830
	<b>100,084,106</b>	<b>114,062,688</b>

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Service charges	524,198	443,675
Rental of facilities and equipment	295,553	212,190
Other income - (rollup)	367,315	2,996,267
Interest received	3,942,378	4,509,354
	<b>5,129,444</b>	<b>8,161,486</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

**Taxation revenue**

Property rates	5,193,575	4,692,529
Property rates - penalties imposed	253,195	434,180

**Transfer revenue**

Government Grants and Subsidies	88,799,014	100,663,664
Fines	708,878	110,830
	<b>94,954,662</b>	<b>105,901,203</b>

### 36. Material differences between budget and actual amounts

It is a general practice to deem 10% deviation on operational expenditure versus the final budget as material.

The following revenue and operational expenditure line items showed a material variances for the 30 June 2014 Financial year.

- Service Charges ( 74% over ) . The increase is due to more collection on refuse collection
- Other income ( 60% Over). The increase is due in increase in the capital budget leading to more tenders issued(Tender documents revenue.)
- Property Rates ( 33% Over ) . Due to an annual increase
- Grants ( 44% Over ) . Due to grants not anticipated to be received during the year
- Fines (254% Under ) . Due to implementation of GRAP 23 in the current year
- Depreciation and amortisation ( 84% Over ) . Due to GRAP 17 implementation and more additions of PPE
- Impairment Loss Traffic fines ( 100% over ) .Due to implementation of IGRAP 1
- Finance costs (16% Over ) , Due to changes in interest rates
- Bad debts (366% Over). Due to bad debts written off and the provision that increased significantly
- Repairs and Maintenance ( 43% Under ) . Due to saving measures implemented
- Contracted Services ( 60% Under ). Due to saving measures implemented.
- General Expenses (14 % Under ) . Due to underspending on certain line items .
- Capital Expenditure ( R25.3 million under spending) . Due to contractors failing to complete the projects timeously , Inadequate supply of electricity in the area leading to delays in completion of the projects.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>37. Related parties</b>		
<b>Relationships</b>		
Accounting Officer	Refer to employee related costs	
Section 57 Managers	Refer to employee related costs	
Councilors	Refer to councilors remuneration	
<b>Compensation to accounting officer and other key management</b>		
Accounting Officer and Other Key Management	3,946,672	3,428,314
Councilors	6,388,782	5,931,081
	<b>10,335,454</b>	<b>9,359,395</b>

### 38. Changes in accounting policy

The municipality has adopted the following Accounting Standards and Interpretation of Standards of GRAP for the first time during the 2013-2014 financial year in order to comply with the basis of preparation of financial statements as disclosed in accounting policy 1.

- GRAP 25 Employee Benefits
- GRAP 31 Intangible Assets
- IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue

#### GRAP 25 Employee Benefits

The municipality changed its Accounting Policy from IAS 19 to GRAP 25 Employee benefits with no effect on the financial information previously reported except the additional disclosure in terms of GRAP 25

#### GRAP 31 Intangible Assets

The municipality changed its Accounting Policy from GRAP 102 to GRAP 31 with no effect on the financial information previously reported.

#### IGRAP 1 Applying the probability test on initial recognition of revenue

The municipality have applied IGRAP 1 during the year 2013-2014 and the change in accounting policy has been applied prospectively as per Accounting Standards Board with no effect on financial information previously reported.

#### GRAP 23 Revenue from non-exchange transactions - Traffic fines

##### Receivables from non-exchange transactions

Balance previously published as per AFS 30 June 2013	-	258,034
Traffic fines raised in 2013	-	447,620
Traffic fines payments received for the year	-	(110,830)
<b>Balance now published as per AFS 30 June 2013</b>	<b>-</b>	<b>594,824</b>

The municipality changed its accounting policy regarding the treatment of traffic fines . Previously the municipality had accounted for traffic fines on cash basis and now under GRAP 23 (Revenue from non -exchange transactions ) which became effective for the reporting periods after 30 April 2012 traffic fines must be accounted for on accrual basis

The above change has an effect on prior year figures of revenue from non-exchange transactions and accumulated surplus

## Notes to the Annual Financial Statements

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### 39. New standards and interpretations

#### 39.1 Standards and interpretations not yet effective

The following standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality. Where a standard of GRAP has been issued but not yet in effect and have not been gazetted by

##### **GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions in the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

##### **GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

##### **GRAP 106: Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

## Notes to the Annual Financial Statements

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### 39. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

### GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

## Notes to the Annual Financial Statements

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### 39. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

### **GRAP32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 39. New standards and interpretations (continued)

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.



# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 40. Financial instruments disclosure

#### Categories of financial instruments

##### 2014

#### Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	780,499	780,499
Receivables from exchange transactions	447,933	447,933
Cash and cash equivalents	52,420,577	52,420,577
	<b>53,649,009</b>	<b>53,649,009</b>

#### Financial liabilities

	At amortised cost	Total
Finance lease obligation - Current	52,152	52,152
Trade payables	15,025,078	15,025,078
Finance lease obligation- Long-term	237,956	237,956
	<b>15,315,186</b>	<b>15,315,186</b>

##### 2013

#### Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	336,050	336,050
Receivables from exchange transactions	4,412,279	4,412,279
Cash and cash equivalents	67,775,294	67,775,294
	<b>72,523,623</b>	<b>72,523,623</b>

#### Financial liabilities

	At amortised cost	Total
Finance lease obligation - Current	23,418	23,418
Trade payables	9,410,151	9,410,151
Finance lease obligation- Long term portion	291,221	291,221
	<b>9,724,790</b>	<b>9,724,790</b>

### 41. Impairment of assets

#### Impairments

Other financial assets	425,754	-
The impairment losses for traffic fine has been estimated based 75% traffic fines outstanding at year end . The assumptions is based on the collection rate , History and general economic conditions.		

### 42. Contingencies

The municipality is being sued in the labour court by the former employee for unfair dismissal . In the event that the court finds an adverse order against the municipality , the municipality may be liable to pay back the applicant in the amount of R1.2 million. The municipality is defending the claim and the outcome of the claim is not known at this stage.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 43. Comparative figures

Certain 2012-2013 expenditure line items of small amounts of general expenses were grouped together to other expenditure to ensure compliance with GRAP 1 Presentation of financial statements and the management is of the opinion that these amounts are immaterial to be shown separately on the face of general expenses.

The details of the reclassification of general expenses is the following.

General expenses	Original	Adjustments	Restated
General expenses balance	36,687,876	-	36,687,876
Ant-corruption measures	-	(27,450)	(27,450)
Bank charges	-	(72,715)	(72,715)
Garden expenses	-	(45,547)	(45,547)
HIV /AIDS Expenses	-	(32,070)	(32,070)
Hire of vehicles	-	(65,140)	(65,140)
Inter-governmental relations	-	(12,402)	(12,402)
Newspapers	-	(316)	(316)
Performance management	-	(17,025)	(17,025)
Postage and freight	-	(14,321)	(14,321)
Railway tourism	-	(80,625)	(80,625)
Refuse removal- Bulwer	-	(7,772)	(7,772)
Registry services	-	(33,500)	(33,500)
Rent	-	(39,185)	(39,185)
Sewerage disposals	-	(19,866)	(19,866)
Valuation fees	-	(14,368)	(14,368)
Ward committee training	-	(40,103)	(40,103)
Consumables	-	(13,654)	(13,654)
Other expenditure	-	536,059	536,059
	<b>36,687,876</b>	<b>-</b>	<b>36,687,876</b>

Prior year figures of long and short-term portion of retention and trade payables have been reclassified to correctly comply with GRAP 1 Requirements regarding presentation of annual financial statements. The details of the reclassification is as follows.

Retention	Audited AFS 2013	Adjustments	Restated 2013
Retentions- current portion	2,781,947	(2,781,947)	-
Retentions- short-term portion	2,365,189	(2,365,189)	-
	<b>5,147,136</b>	<b>(5,147,136)</b>	<b>-</b>

Prior year figures of Trade payables have been reclassified due to retentions figures being taken to trade payables to correctly comply with GRAP 1 Requirements.

Trade payables	Audited AFS	Adjustment	Restated 2013
Trade payables	4,276,478	-	4,276,478
Retentions	-	5,147,136	5,147,136
	<b>4,276,478</b>	<b>5,147,136</b>	<b>9,423,614</b>

### 44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 45. In-kind donations and assistance

No in-kind donations and assistance was received during the year under review.

# Ingwe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 46. Events after the reporting date

No material fact or circumstance has occurred between the accounting date and the date of this report.